SOME ASPECTS OF METHOD

Equilibrium Analysis

Against the traditional approach "among English-speaking economists[13] of dividing Economics into two broad parts, the theory of production and the theory of distribution, Robbins sets out an argument in favour of replacing the traditional method with Equilibrium Analysis. This argument seemed necessary because Equilibrium Analysis was still a relatively new concept.

Robbins states two major defects of the traditional approach.

The first objection is directed to ~~the~~ what Robbins considers the inevitable intrusion of technical elements. The theory of production is apt to digress into discussions of the various forms of peasant proprietorship, factory organization, industrial psychology, technical education. We might note here, that these aspects are what Robbins considers the data of economics as opposed to the categories of the subject.

The data form that part of economic theory that is given and are not meant to be explained by the economist. The economist should trace the relationships between the data of economics with the fundamental laws derived from the categories. To achieve this it would be necessary to understand the data.

(13) Robbins, op.cit., p.64.

The second objection to the traditional approach is that it precludes precision. The old approach is supposed to include vague concepts like changes in the total volume of production. As to be seen later, a concept like a change in the aggregate of production is only vague in relation to modern price theory which recognizes only relative values and not absolute~~s~~ values. This is summarized in the statement "Value is a relation not a measurement".

Robbins says that it is not possible to derive 'laws' of production from the notion of total product. He points out that wherever laws have been devised this has been in relation to definite concepts like price, supply and demand. Only these definite concepts can yield definite laws.

~~If~~ The important point that emerges from this is that the purpose of demanding precision is to be able to build up a body of scientific generalisations yielding laws, and thus to derive a complete system of explanation. This relates to what we have termed the 'unity' aspect of Positive scientific Economics. Robbins considers it~~s~~ unscientific to think of the economy as a one big machine producing a total product.

Equilibrium Analysis on the other hand has 3 divisions; the theory of equilibrium, a theory of comparative statistics and a theory of dynamic change.

Describing the economic system in terms of the scarcity definition of Economics, Robbins says

> "... we regard it as a series of interdependent but conceptually discrete relationships between men and economic goods".

The questions for enquiry relate to the conditions under which these relationships are constant; the effects of changes either in the ends or the means; and how such changes may be expected to take place through time.

Yet Equilibrium Analysis is merely a analysis in precise terms of the methodological fundations of the earlier theories. Equilibrium Analysis merely generalises the procedure of the classicals[14].

Ricardian

The Ricarchan system in essence is a consideration of tendecies to equilibrium of clear-cut quantities and relationships. The <u>Tableau Economique</u> of Quesnay was nothing more than an attempt to apply equilibrium analysis. The "central achievement" of Adam Smith's <u>Wealth of Nations</u> is the explanation of how the relative price mechanism kept in equilibrium the division of labour.

The advantage of adopting the new method of analysis is that it is possible always to recognize the introduction of conventional assumptions or those assumptions that do not follow from the fundamental premises of Economics. It will be remembered that this is related to one of the purposes of the essay - to promote "accuracy in mode of statement".

The Assumption of Rationality

The assumption of Rationality in Economics is related to the behaviour of the economic subject.

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(14) Robbins, op.cit., p.69.

There are 2 senses in which rational action is assumed; firstly in terms of consistent behaviour and secondly in terms of purposive action. Consistent behaviour is further interpreted in 2 ways. Firstly, as demonstrated in the generalisation that in equilibrium the relative significance of divisible commodities is equal to their price assuming that if A is preferred to B and B to C, then A is preferred to C. Internal arbitrage operations are assumed not to be possible in a position of equilibrium. The second interpretation of consistency recognizes the fact that beyond a certain point, it is not worth bothering about fine distinctions between marginal utilities. This point is reached when the cost of internal arbitrage is greater than the gain.

Rationality is conceived in terms of 'purposive' action in that economic subjects are aware of what their desires or ends are and also aware of the relationships of these ends to relatively limited means. Since this is what form the essence of the economic problem, it would be concluded that where there is not this awareness, the economic problem does not exist. This does not mean that purposive action is always consistent. As we shall see below Robbins ascribes to the significance of economic science the fact that it pre-gressively shows out inconsistencies in human behaviour in relation to elected ends.

Neither does the assumption of rationably mean that this reflects reality. The purpose of the assumption is to facilitate the isolation of tendencies selected from complex reality. The whole purpose is to study the causes of tendencies in isolation in order to relate the knowledge to the complex whole.

The Economic Man

In the light of this Robbins explains what lies behind the assumption of the Economic Man falsely represented as a money-making self-interested creature.

The concept is only a device to simplify a whole complex of influences that come to bear on the economic subject. So, the concept does recognize~~s~~ the economic subject as maximizing not just money gains but net advantages. ~~This~~ Robbins points out that this implication has been obvious ever since Adam Smith wrote of the concept~~s~~ of division of labour.

It is assumed for the sake of simplicity that the economic subject is faced on the one hand with all the means and all the ends on the other.

The purpose of this explanation seems to be directed towards ridding the methods of economic analysis from all moral and ethical connotations. Robbins sought to point out not only the distinction between scientific economic generalisations and conventional assumptions, but also to rid the tools of economic analysis of all undesirable connotations.